IRVIN CORLEY, JR.
DIRECTOR
(313) 224-1076

City of Detroit

CITY COUNCIL

FISCAL ANALYSIS DIVISION
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 218
Detroit, Michigan 48226
FAX: (313) 224-2783
E-Mail: irvin@cncl.ci.detroit.mi.us

ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: Roger Cheek, President
Detroit Retired City Employees Association

FROM: Irvin Corley, Jr., Fiscal Analysis Director IC.

DATE: April 25, 2008

RE: 2008-2009 Budget Analysis

Attached is our analysis regarding your budget request for the upcoming 2008-2009 Fiscal Year.

Your Budget Hearing before Council is scheduled for **Monday, April 22, 2008 at 1:30 p.m.**

Please contact us if you have any questions regarding our analysis.

Thank you for your cooperation in this matter.

IC:jgp:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Norman White, Chief Financial Officer
Pamela Scales, Budget Director
Renee Short, Budget Department
Walter Stampor, Retirement System Manager
Barbara Wise Johnson, Labor Relations
Kerwin Wimberley, Mayor's Office

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Detroit Retired City Employees Association

FY 2008-2009 Budget Analysis by the Fiscal Analysis Division

Detroit Retired City Employees Association (DRCEA) 2008-2009 Proposal and Costs

In the DRCEA's letter to the City Council dated April 24, 2008, the association requests funding for a payment of $30 per month, $600 per year for a select group of retirees. The designated group of retirees consists of: 1) 65 years of age or older, 2) retired prior to July 1, 1998, and 3) are paying Medicare Part B monthly premium (in the amount of $96.40 per the DRCEA).

The cost estimate provided by the DRCEA for this increase is $1,976,760 for the first year only, with $1,654,200 having to be funded by the general fund. If the cost estimate is accurate, the DRCEA is requesting a 91% increase over the amount Council managed to include in the general fund for the current year budget for pension improvements for the DRCEA. As Council is aware, the latest audited accumulated deficit for the city is $173.7 million, a record amount.

The DRCEA President wrote in the April 24, 2008 letter to Council – "Nonetheless, I am sure we can all agree that regardless of the budgetary circumstances, some spending requests still need to be granted—if for no other reason than rudimentary fairness begs for it."

Increasing benefits for already retired employees is nothing more than a gift. These employees were represented and agreed to wages, employee benefits, pension calculations and associated retirement benefits as a part of their agreement for employment. Requesting increases after their retirement is their right. But when these requests are granted, it represents a gift. They are receiving more than they agreed to receive as retirees when they were active. While active, they were in a position to give something in return, but there is nothing for the City to receive in return. As such these increases become gifts. While the service of these previous employees must be recognized and appreciated, and cannot be diminished, there is a limit to the amount the City of Detroit remains responsible for or can afford to give to these previous employees. While granting gifts is admirable, fairness is not a part of it.

The DRCEA letter to Council continues - "Our older retirees often have smaller monthly pension checks. This is because they retired at least 10 years ago – many much longer ago – when city wages were lower. (Our proposal excludes all of those who retired as of July 1, 1998 and later, when the newest and highest pension rules went into effect.)"

When the referred to "newest and highest pension rules went into effect" the active employees who benefited from them gave something up, be it a pay reduction, a forgone pay increase, a pay freeze, and/or other concessions. The already retired did not. So trying to equalize the two groups is inequitable in itself and actually interferes with the collective bargaining process between current employees and the City. Why should current employees bargain on pension improvements and give something up in return during current negotiations, when the City has developed a pattern of granting increases to previous employees after they retire?

DRCEA continues – "The cost to the General Fund is estimated at $1.65 million per year, since approximately 4,595 retirees will be covered by our request. (About 896 additional retirees in non-general fund categories would also receive the $30 payments, but that cost would not be paid out of the General Fund.)

The above statement is accurate in as far as the total cost would not come out of the general fund. But the cost will have to come from somewhere, and that somewhere is in high rates for water, sewerage and other services. And it is the same person, be it the taxpayer directly for the general fund portion or the customers of the non-general fund categories who pays for both costs in the end.

DRCEA continues – "Having Medicare Part B coverage is a very good thing because it makes the Medicare system – not the City – primarily responsible for about 80% of the bill this is due on most medical procedures for those older retirees. This results in the City saving a great deal of money on older retirees' medical costs each year."

The requirement of having Medicare Part B, we believe, is part of Federal Law, and not something that was chosen by either the City or employees, and is required for most citizens over 65. With the "City saving a great deal" it is very difficult, or nearly impossible to balance the city's budget while providing adequate services to the citizens. How would spending nearly $2 million more for retiree benefits reduce the deficit or increase service to the citizens?

DRCEA continues – "Last year, the DRCEA worked very cooperatively with the City in its effort to enroll as many retirees as possible into the various new Medicare Advantage plans. The results of this cooperation benefited the City and the retirees, financially."

Last year during the cooperative effort was the perfect time for the DRCEA to include the cost of Medicare Part B in this effort. At a time when there was the opportunity for the City to receive something in return. Now it reverts to a gift to the selected retirees. And it should be noted that both the City and **retirees benefited financially.** So why should that balance be changed a year later?

DRCEA writes – "Finally, what we are requesting is significantly lower than the original goal we sought for this year. We made the change because we recognize the City's financial situation."

How does making an exorbitant request for a gift originally, and then reducing it qualify as recognizing the "City's financial situation"? The City's deficit is the highest it has ever been, costs are increasing, revenues are stagnate or decreasing, current employees are being asked to make concessions, service levels need to be increased, but the select group of retirees should get more?

Questions for the Retiree Association

1. The DRCEA did not provide an actuarial valuation to support the cost estimate of their request. Does the DRCEA have one available? If Council feels the request is going to be considered, Council should have a valuation prior to approval.

IC:jgp

Detroit Retired City Employees Association

Representing Detroit City Retirees Since 1960

P.O. BOX 40713 • Detroit, MI 48240-0713 • 313-927-0491

April 24, 2008

Honorable City Council, City of Detroit
Thirteenth Floor
Coleman A. Young Municipal Center
2 Woodward Avenue
Detroit, Michigan 48226

RE: 2008-2009 Budget Request by Detroit Retired City Employees Association

Dear Honorable Council Members:

On Monday, April 28, 2008, we will be appearing before you to request that in the coming budget year you be so kind as to provide a small retirement improvement for our oldest and usually least financially-able retirees. As you will see, the request we are making will **not** provide for any pension improvement for more than 5,000 of our retirees, including myself, and our Board is ***perfectly satisfied*** with that, considering everything, including what we believe to be the financial condition of the City at this time. Nonetheless, I am sure we can all agree that regardless of the budgetary circumstances, some spending requests still need to be granted—if for no other reason than rudimentary fairness begs for it.

So that you may have an opportunity to know beforehand what is we will be asking of you, enclosed are two writings that summarize the appeal we will be making.

We would sincerely appreciate it if you would take the time (it should not require much) to familiarize yourself with their contents.

Thank you again for your kind consideration of this request from those persons who have, over many past years, unselfishly given a great deal of themselves to advance the fortunes of our beloved City.

Respectfully requested,

Roger N. Cheek

Roger N. Cheek
President

Encl. (2)

Cc: Honorable City Clerk Janet Winfrey
Director of Council Research Division, Mr. Irvin Corley

<u>"Facts and Comments" On DRCEA's 2008 Budget Request (AMENDED)</u>

<u>The DRCEA's Goal</u>: To help our **older** retirees who usually have **smaller** pensions checks.

<u>Our Budget Request</u>: A payment of $30 per month to go to City retirees who are 1) 65-years old and older, 2) who retired prior to July 1, 1998, and 3) who are paying the Medicare Part B monthly premium of $96.40. *(That premium is deducted from the retiree's Social Security check; our requested $30 would be added into the retiree's monthly pension check).*

<u>Rationale In Support of our Request</u>:

- Our older retirees often have smaller monthly pension checks. This is because they retired at least 10 years ago—many much longer ago—when City wages were lower. (*Our proposal excludes all of those who retired as of July 1, 1998 and later, when the newest and highest pension rules went into effect.)*

- The cost to the General Fund is estimated at $1.65 million per year, since approximately 4,595 retirees will be covered by our request. *(About 896 additional retirees in non-general fund categories would also receive the $30 payments, but that cost would not be paid out of the General Fund.)*

- Having Medicare Part B coverage is a very good thing because it makes the Medicare system—*not the City*— primarily responsible for about 80% of the bill that is due on most medical procedures for those older retirees. This results in the **City saving** a great deal of money on older retirees' medical costs each year.

- We believe the City will be joining other governmental entities that contribute financially to their 65-and-older retirees who sign up for Medicare Part B.

<u>Conclusions</u>:

- Last year, the DRCEA worked very cooperatively with City in its effort to enroll as many retirees as possible into the various new Medicare Advantage plans. The results of this cooperation benefited the City and the retirees, financially.

- Finally, what we are requesting is significantly lower than the original goal we sought for this year. We made the change because we recognize the City's financial situation.

<u>ABOUT RETIREES and the DRCEA</u>: There are approximately 11,000 civilian retirees, of which about 8,000 maintain membership in the DRCEA. A vast number of the retirees still reside within the City of Detroit. Through our quarterly newsletters and twice-a-year general membership gatherings, we keep our members advised of matters that affect their welfare. We encourage all retirees to be stay abreast of happenings in the governments that serve them, and to participate and contribute as much as possible.

Cost of DRCEA Request to Provide Some Monetary Relief to Retirees Who Are:
1) Aged 65 and Older,
2) Paying the 96.40 Monthly Premium Payment for Medicare Part B Coverage, and
3) Who Retired Before July 1, 1998

Revenue Group	Number of Retirees Covered	Original Goal Total: $600 Per Year $50 Per month	**REDUCED GOAL Total: $360 Per Year $30 Per month**
General City	3,566	~~$2,139,600~~	**$1,283,760**
D-DOT	874	~~$524,400~~	**$314,640**
Housing	155	~~$93,000~~	**$55,800**
General Fund Total	4,595	~~$2,757,000~~	**$1,654,200**
Water	597	~~$358,200~~	**$214,920**
Sewerage	176	~~$105,600~~	**$63,360**
Library	123	~~$73,800~~	**$44,280**
"Other" Revenue Groups Total	896	~~$537,600~~	**$322,560**
Grand Total Cost All Revenue Groups	5,491	~~$3,294,600~~	**$1,976,760**